

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 SP-02 USIA-15 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01

AGRE-00 L-03 SAJ-01 /109 W

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R 240800Z FEB 77

FM AMEMBASSY BERN

TO SECSTATE WASHDC 3944

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION GENEVA

USDEL MTN GENEVA

AMCONSUL ZURICH

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PASS TREASURY AND FRB

EO 11652: N/A

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: FEB 13 - 19

1. SUMMARY: FOREIGN EXCHANGE MARKET WAS STABLE, DOLLAR RATE AGAINST SWISS FRANCS ROSE FROM SF 2.50 TO SF 2.51 WITH SUPPORT FROM SWISS NATIONAL BANK. GOLD PRICE REMAINED FIRM AT 136. BANKERS BELIEVE SWISS FRANC MAY HAVE PASSED PEAK OF ITS APPRECIATION BUT WILL REMAIN STRONG. LATEST CONFEDERATION BOND ISSUE WAS NOT SUCCESSFUL; LOW INTEREST RATES DISCOURAGED INVESTORS. GOVT SENT PARLIAMENT NEW MULTIYEAR FINANCIAL PACKAGE WHICH PROVIDES FOR BALANCED BUDGET BY 1980 IF VALUE ADDED TAX APPROVED. FOREIGN UNCLASSIFIED

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TRADE EXPANDED IN JAN WITH SF 346.3 MILLION DEFICIT.

FEDERAL COUNCILOR BRUGGER STRESSED TO EFTA

MEMBERS THAT SWISS ECONOMIC RECOVERY WILL BE EXPORT LED.

SWISS LABOR FEDERATION SECRETARY WAS APPOINTED GOVERNMENT ECONOMIC POLICY ADVISOR.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: FOREIGN EXCHANGE RATES WERE RELATIVELY STEADY DESPITE FLUCTUATIONS IN EARLY WEEK. DOLLAR RATE AGAINST SWISS FRANC OPENED LOWER THAN PREVIOUS WEEK AT SF 2.50, REFLECTING US ECONOMIC SLOWING FROM COLD WEATHER, BUT CLOSED FRIDAY AT SF 2.51 AFTER SWISS NATIONAL BANK INTERVENED TO SUPPORT DOLLAR RATE. BANKERS BELIEVE SNB INTENDS KEEP DOLLAR RATE ABOVE SF 2.50. POUND STERLING ALSO WEAKENED BUT RECOVERED BY WEEKEND WHILE DM SHOWED CONTINUED STRENGTH. GOLD PRICE REMAINED FIRM AT 136 DESPITE REPORTS OF CHINESE GOLD DELIVERIES ON LONDON MARKET. RATES FOLLOW:

ITEM - 2/14(OPEN) - 2/18(CLOSE)
SPOT DOLLAR - 2.5085 - 2.5515
FORWARD DISCOUNTS(PCT P.A.)
ONE MONTH - 3.26 - 2.67
TWO MONTHS - 3.40 - 3.01
THREE MONTHS - 3.64 - 3.15
SIX MONTHS - 3.78 - 3.33
12 MONTHS - 3.79 - 3.39
SF/DM - 104.58 - 104IE
GOLD - 136 - 136.25

3. EXCHANGE RATE OUTLOOK: SWISS BANKERS BELIEVE EXCHANGE RATES IN 1977 WILL BE MORE STABLE THAN IN 1976 BECAUSE OF GREATER ABILITY OF CENTRAL BANKS TO CONTROL RATE FLUCTUATIONS. CREDIT SUISSE REPORTED THAT SWISS FRANC MAY

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HAVE PASSED PEAK OF ITS APPRECIATION BUT WILL REMAIN STRONG BECAUSE OF LOW SWISS INFLATION RATE. COMPARED TO APRIL 1971, FRANC APPRECIATED 70 PERCENT (TRADE WEIGHTED) BY MID-1976 BUT FELL BACK TO 58 PERCENT IN JAN 1977. FACTORS EXPECTED TO KEEP FRANC RATE FROM RISING IN 1977 ARE: A) INCREASED SNB ABILITY TO INTERVENE ON EXCHANGE MARKET TO STABILIZE RATES; B) RETURN TO DEFICIT SWISS TRADE BALANCE; AND C) CONTINUED LOW INTEREST RATES AND HIGH CAPITAL EXPORTS. CREDIT SUISSE BELIEVES CURRENCIES FROM HIGH INFLATION COUNTRIES COULD FALL AGAINST THE FRANC WHILE CURRENCIES FROM LOW INFLATION COUNTRIES RISE. HIGHER DM RATE AGAINST SF IS EXPECTED. UNION BANK OF SWITZ REPORTED THAT HIGHER DOLLAR RATE PARTLY RESULT BANK OF LONDON PURCHASE OF \$2 BILLION IN JANUARY TO KEEP POUND RATE LOW WHEN CAPITAL INFLOWS INCREASED IN RESPONSE TO HIGHER UK INTEREST RATES AND STABILITY FROM IMF CREDITS. HOWEVER, DOLLAR RATE EXPECTED REMAIN STABLE BECAUSE OF IMPROVED OUTLOOK FOR SUSTAINED US GROWTH, DESPITE RECENT COLD,

AND EXPECTED HIGHER US INTEREST RATES, THOUGH STRONG
DM AND SF COULD EXERT DOWNWARD PRESSURE.

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PASS TREASURY AND FRB

4. CAPITAL AND MONEY MARKETS: MARKETS HIGHLY LIQUID.
CALL MONEY RATE REMAINED 0.25 PERCENT. STOCK PRICES
SHOWS LITTLE CHANGE; SKA INDEX (1959 IS 100) 224 FEB 18.
AVERAGE YIELD CONFEDERATION BONDS DECLINED TO 3.94.
SNB WAS OBLIGED TO TAKE NEARLY SF 70 MILLION IN LATEST
CONFEDERATION SF 500 MILLION BOND ISSUE WHEN INVESTOR
DEMAND FAILED TO MATERIALIZE. SOME BANKERS BELIEVE
PRIVATE BANKS COULD HAVE SOLD ENTIRE ISSUE, BY DIS-
COUNTING ISSUE PRICE, BUT SNB PREFERRED KEEP EFFECTIVE
INTEREST RATE BELOW 4 PERCENT.

ECONOMIC

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5. FEDERAL FINANCIAL PLAN: GOVT SENT PARLIAMENT PROPOSED PLAN FOR FEDERAL SPENDING 1978 TO 1980 AND PROJECTED 1981 THAT SHOWS BALANCED BUDGET AFTER 1979. PLAN IS BASED ON SF 2.5 BILLION INCREASED REVENUES FROM INTRODUCTION 10 PERCENT VALUE ADDED TAX (VAT) WHICH VOTERS WILL CONSIDER IN JUNE 1977 REFERENDUM. PARLIAMENT WILL CONSIDER FINANCIAL PACKAGE DURING REGULAR MARCH AND SPECIAL MAY SESSIONS. FOLLOWING SHOWS PROJECTED RATES OF GROWTH IN FEDERAL OUTLAYS AND RECEIPTS:

(SF MILLIONS) - 1978 - 1979 - 1980 - 1981

OUTLAYS - 16,2725 - 17,384 - 17,712 - 18,508

PCT CHANGE - 4.6 - 3.9 - 4.8 - 1.6

RECEIPTS - 16,088 - 17,335 - 18,265 - 18,560

PCT CHANGE - 13.1 - 7.8 - 5.4 - 1.6

NEW TAX REC - 1,302 - 2,396 - 2,510 - 2,660

BALANCE - -637 - -49 - 50 - 50

COMPARED TO BUDGET PROJECTIONS MADE JAN 1976, PLAN SHOWS SPENDING CUTS OF SF 1.7 BILLION IN 1978 AND SF 2.5 BILLION FOR 1979. PLAN IS BASED ON ASSUMPTION NOMINAL GNP WILL GROW 4 PERCENT ANNUALLY NEXT THREE YEARS (1.5 PERCENT IN REAL TERMS) WITH BUDGET OUTLAYS EXPENDITURE INCREASES WITHIN THIS RANGE. FEDERAL EXPENDITURES ROSE AVERAGE 11.8 PERCENT DURING 1970-75. IF VAT IS REJECTED, GOVT MUST CUT EXPENDITURES INSTEAD OF LIMIT THEIR GROWTH AND SEEK ADDITIONAL REVENUES THROUGH EMERGENCY MEASURES. FEDERAL COUNCILOR CHEVALLAZ TOLD PRESS THAT GOVT DOES NOT PLAN STIMULATIVE MEASURES FOR THE ECONOMY AT THIS TIME, BUT SUCH PROGRAM COULD BE INTRODUCED IF IT BECAME NECESSARY. CHEVALLAZ SAID FIGHT AGAINST INFLATION REMAINS FIRST PRIORITY AND REQUIRES BALANCED BUDGET WITH EXPENDITURE GROWTH IN STEP WITH DOMESTIC PRODUCTION.

6. REACTION TO FEDERAL FINANCIAL PACKAGE: COMMENT ON GOVT'S FINANCIAL PROGRAM FOCUSED ON REDUCED UNCLASSIFIED

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SUBSIDIES TO CANTONS AND ESPECIALLY THE NATIONAL HEALTH INSURANCE PLAN WHICH IS EXPECTED TO PLACE GREATER BURDEN ON INSURED PARTIES. LABOR FEDERATION SAID PACKAGE IS INAPPROPRIATE IF EARLY ECONOMIC RECOVERY NOT EXPECTED AND CRITICIZED REDUCED SPENDING FOR PUBLIC TRANSPORTATION. PRESS COMMENT STRESSED THAT BUDGET CANNOT BE BALANCED WITHOUT VALUE ADDED TAX AND POINTED OUT THAT THERE ARE NO REAL SPENDING CUTS, ONLY REDUCTIONS IN PLANNED FUTURE OUTLAYS. ONE

EDITORIAL SPECULATED THAT PACKAGE MIGHT PROMPT VOTERS
TO ACCEPT VAT IN JUNE.

7. FOREIGN TRADE: CUSTOMS REPORTED THAT FOREIGN
TRADE CONTINUED TO EXPAND IN JAN BUT WITH NET
DEFICIT OF SF 346.3 MILLION COMPARED SF 123.8 MILLION
DEFICIT JAN 1976 AS FOLLOWING SHOWS:

JANUARY - IMPORTS - EXPORTS
(MILLIONS SF) - 1977 - 1976 - 1977 - 1976

VALUE - 3,063 - 2,583 - 2,717 - 2,459

PCT CHANGE - 25.2 - -16.4 - 17.9 - 2.5

PRICE CHANGE - -0.5 - -6.1 - 3.9 - -1.6

REAL CHANGE - 19.5 - -11.2 - 6.1 - -0.7

US SHARE - 201.3 - NIL - 264.4 - NIL

PCT CHANGE - 13.4 - NIL - -5.1 - NIL

INCREASED IMPORTS WERE PRIMARILY RAW MATERIALS, SEMI-
FINISHED AND CAPITAL GOODS. EXPORTS WERE LED BY
PRIMARY PRODUCTS, METALS AND CONSUMER GOODS.

8. EFTA: FEDERAL COUNCILOR BRUGGER TOLD EFTA CONFERENCE
IN STOCKHOLM THAT SWISS ECONOMIC RECOVERY DEPENDS
ON INCREASED EXPORTS TO STIMULATE INVESTMENT AND
DOMESTIC DEMAND IN VIEW OF EXTENSIVE IDLE CAPACITY IN
SWISS INDUSTRY.

9. GOVT POLICY: GOVT CONFIRMED APPOINTMENT
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OF LABOR FEDERATION SECTY WALDEMAR JUCKER AS FEDERAL
DELEGATE FOR BUSINESS CYCLE POLICY. THOUGH LEADING NEUE
ZUERCHER ZEITUNG CRITICIZED JUCKER'S LABOR AND SOCIALIST
BACKGROUND AS UNACCEPTABLE FOR SENIOR ECONOMIC ADVISOR
IN MARKET ECONOMY, MOST PRESS COMMENT HAS BEEN FAVORABLE
TO JUCKER AS EXCELLENT LAWYER AND ECONOMIST WHO
HAPPENS TO COME FROM LABOR UNION.
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